

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Shelby Area District Library	County Oceana
Audit Date 2/28/05	Opinion Date 6/28/05	Date Accountant Report Submitted to State: 7/13/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

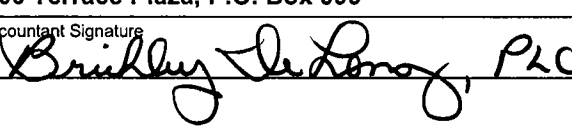
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Brickley Delong, PLC			
Street Address 500 Terrace Plaza, P.O. Box 999		City Muskegon	State MI
Accountant Signature 		ZIP 49443	Date 7/13/05

Shelby Area District Library
Oceana County, Michigan

REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

February 28, 2005

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Shelby Area District Library
Management's Discussion and Analysis
February 28, 2005

Brief discussion of the basic financial statements

This annual report consists of three parts: *management's discussion and analysis*, *the basic financial statements*, and *required supplementary information*. The basic financial statements include information that presents two different views of the Library.

*The first two columns of the financial statements include information about the Library's General Fund and Capital Project Fund under the modified accrual method of accounting. These financial statements focus on current resources and provide a detailed view of the Library's sources and uses of funds.

*The "Adjustments" columns of the financial statements represents adjustments necessary to convert the modified accrual statements to the government-wide financial statements under the full accrual method of accounting required for the year ended February 28, 2005.

*The last columns provide both long term and short term information about the Library's overall financial status. The "Statement of Net Assets" and the "Statement of Activities" provide information about the activities of the Library as a whole, and present a longer term view of the Library's finances.

The financial statements also include *notes* which explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements.

Since this is the first year that a *management's discussion and analysis* report is required to be presented, consistent with Governmental Accounting Standards Board Statement Number 34, this year's report does not show data in comparison with the prior years. In the future, the condensed financial information which follows will include that information.

Shelby Area District Library
Management's Discussion and Analysis
February 28, 2005

Condensed Financial Information

A. Statement of Net Assets

The State of Net Assets presents information on all of the Library's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as an indicator of whether the financial position of the Library is improving or deteriorating. As of February 28, 2005, the Library's net assets totaled \$757,441. Current assets totaled \$112,599 and consisted of cash and receivables. Capital assets of \$644,882 include the Library's collection of materials minus accumulated depreciation.

Condensed Statement of Net Assets

Current assets	\$ 112,599
Capital assets, net	<u>644,882</u>
Total assets	757,481
Net assets	
Invested in capital assets	644,882
Unrestricted	<u>112,599</u>
Total net assets	\$ <u>757,481</u>

B. Statement of Activities

The information that follows reports key financial information in a condensed format. Amounts and totals reported are for all Library activities, including general operations, gifts received, and net assets, in order to give a complete picture.

The Library's net assets increased by \$23,243 in fiscal year 2005 because property tax and contributions were greater than expenses in the General Fund, which was greater than the decrease in the capital projects fund net assets.

Depreciation expense represented 18% of total expenditures.

Condensed Statement of Activities

General revenues	
Property taxes	\$ 128,182
Intergovernmental revenues	111,901
Grants and contributions	6,600
Fines and forfeitures	1,987
Investment earnings	386
Contributions	26,155
Other	<u>6,741</u>
Total Revenues	281,952

Shelby Area District Library
Management's Discussion and Analysis
February 28, 2005

Condensed Statement of Activities—Continued

Expenditures	
Salaries and wages	\$ 134,560
Depreciation expense	46,275
Fringe benefits	13,844
Utilities	7,778
Contracted services	4,234
Capital Outlay	9,909
Other expenses	<u>42,109</u>
Total Expenditures	<u>258,709</u>
 Change in net assets	 23,243
 Net assets at March 1, 2004	 <u>734,238</u>
 Net assets at February 28, 2005	 \$ <u>757,481</u>

Analysis of Financial Statements

The Shelby Area District Library operates two separate funds, each of which serves a different function. The General Fund is the Library's primary operating fund in which all transactions for day to day operation are recorded. The Capital Project Fund is used to account for the Library expansion project revenues and expenses. The previously disclosed information is presented in total for both funds in conformance with GASB 34.

The Fund balance of the General Fund increased \$28,625 because property tax and local revenues were higher than currently required expenditures. The ending fund balance of \$112,599 is equal to about six months of expenditures.

In the General Fund, the significant balance, other than cash, is property taxes receivable.

The largest expenses of the Library are salaries, wages and related fringes, since the Library is a service organization which requires staff to provide the services. The fringe benefits include payroll taxes paid for all employees as well as retirement for all full-time and permanent part-time Library employees. At present the Library employs 10 people. The second largest expense for the Library is capital outlay for collection materials, which includes books, magazines, and audio-visuals materials. The third largest expense is utilities.

The Fund balance of the Capital Project Fund decreased \$15,022 in 2005. The Library expansion project was completed in 2005 and the fund was closed during the 2005 fiscal year.

Shelby Area District Library
Management's Discussion and Analysis
February 28, 2005

Library Budget Highlights

The following is a summary of the budget amendments for year ending February 28, 2005:

- The grant revenue budget was increased from \$0 to \$6,500 due to unexpected grants from the Community Foundation.
- The office supplies budget increased from \$1,900 to \$4,500 due to the opening of the Local History room, which needed folders, files, and other supplies to be operational.
- Capital outlays were increased from \$30,400 to \$36,900 due to new computers for the Local History room.

Significant budget to actual comparison highlights were as follows:

- Local revenues exceeded budgeted revenues by \$11,703. This was due to a new property tax levy approved by Benona Township residents. The Library Board underestimated the revenue from this levy.
- General Fund capital outlays were less than the final budget by \$5,619. This was due to an overestimate of book purchase costs during the budget process.

Significant Capital Asset Activity

The largest capital asset addition in 2005 was due to the completion of the Library expansion project. Building construction costs and landscaping totaled \$34,543 in 2005. The next largest asset addition class was books and materials in the amount of \$19,683. Books and materials removed from the collections totaled \$7,375 and were all fully depreciated. The only other added capital assets were three new computers and a sofa, totaling \$4,470. The building represented approximately 71% of the net capital assets at February 28, 2005.

The Library acquired no new debt in 2005.

Shelby Area District Library
Management's Discussion and Analysis
February 28, 2005

Anticipated Budget Factors and Currently Known Facts for 2006

The Library expects the next fiscal year to be consistent with fiscal year 2005. However, penal fines, which represent the second largest source of revenues, do present the Library with uncertainty, as they have declined over the past few years. To make up for this expected decline, the Library has received additional property tax revenue from a new .25 mills levied on Benona Township residents. Also, the Library has received a gift to establish an endowment fund, which they will use for future operations. The endowment is expected to rise as the original donor will match funds raised in fiscal year 2006.

The Library does not have any significant capital outlays planned for the next fiscal year. The largest increase in expenses will be due to a new health care plan for one of its full-time employees.

Contacting the Library's Financial Management

This financial report is designed to provide a general overview of the Library's finances for all those interested in them. Questions may be directed to Library Director, Sally Diepen at Shelby Area District Library, 189 Maple Street, Shelby, MI 49455.

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

June 28, 2005

Board of Directors
Shelby Area District Library
Shelby, Michigan

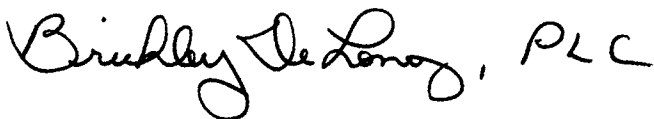
We have audited the accompanying financial statements of Shelby Area District Library as of and for the year ended February 28, 2005, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Shelby Area District Library's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Shelby Area District Library as of February 28, 2005 and the changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note A, the Library has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, as of March 1, 2004.

The management's discussion and analysis and budgetary comparison information on pages i through v and 11 are not a required part of the basic financial statement but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.



Shelby Area District Library
BALANCE SHEET—STATEMENT OF NET ASSETS
February 28, 2005

ASSETS	<u>General</u>	<u>Capital projects</u>	<u>Balance Sheet - Modified Accrual</u>	<u>Adjustments</u>	<u>Statement of Net Assets - Full Accrual</u>
Cash and investments	\$ 71,478	\$ -	\$ 71,478	\$ -	\$ 71,478
Taxes receivable, net	41,121	-	41,121	-	41,121
Capital assets, net					
Depreciable	<u>-</u>	<u>-</u>	<u>-</u>	<u>644,882</u>	<u>644,882</u>
Total assets	\$ <u>112,599</u>	\$ <u>-</u>	\$ <u>112,599</u>	<u>644,882</u>	<u>757,481</u>
 FUND BALANCE					
Unreserved	\$ <u>112,599</u>	\$ <u>-</u>	\$ <u>112,599</u>	<u>(112,599)</u>	<u>-</u>
 NET ASSETS					
Invested in capital assets				<u>644,882</u>	<u>644,882</u>
Unrestricted				<u>112,599</u>	<u>112,599</u>
Total net assets				\$ <u>757,481</u>	\$ <u>757,481</u>

The accompanying notes are an integral part of this statement.

Shelby Area District Library
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
IN FUND BALANCES—STATEMENT OF ACTIVITIES
Year ended February 28, 2005

	General	Capital projects	Revenues and expenditures - modified accrual	Adjustments	Statement of activities - full accrual
Revenues					
Intergovernmental revenue					
State	\$ 11,080	\$ -	\$ 11,080	\$ -	\$ 11,080
Local	229,003	-	229,003	-	229,003
Grants	6,600	-	6,600	-	6,600
Fines and forfeits	1,987	-	1,987	-	1,987
Investment earnings	364	22	386	-	386
Contributions	19,558	6,597	26,155	-	26,155
Other	6,702	39	6,741	-	6,741
Total revenue	<u>275,294</u>	<u>6,658</u>	<u>281,952</u>	<u>-</u>	<u>281,952</u>
Expenditures					
Current					
Salaries and wages	134,560	-	134,560	-	134,560
Fringe benefits	13,844	-	13,844	-	13,844
Operating supplies	2,148	-	2,148	-	2,148
Office supplies	4,385	-	4,385	-	4,385
Insurance and bonds	5,597	-	5,597	-	5,597
Repairs and maintenance	4,925	-	4,925	-	4,925
Utilities	7,778	-	7,778	-	7,778
Professional services	4,900	-	4,900	-	4,900
Contracted services	4,234	-	4,234	-	4,234
Telephone	3,607	-	3,607	-	3,607
Postage	2,625	-	2,625	-	2,625
Printing	570	211	781	-	781
Other	13,067	74	13,141	-	13,141
Depreciation	-	-	-	46,275	46,275
Capital outlay	31,281	34,543	65,824	(55,915)	9,909
Total expenditures	<u>233,521</u>	<u>34,828</u>	<u>268,349</u>	<u>(9,640)</u>	<u>258,709</u>
Excess of revenues over (under) expenditures	41,773	(28,170)	13,603	9,640	23,243
Other financing sources (uses)					
Transfers in	852	14,000	14,852	(14,852)	-
Transfers out	(14,000)	(852)	(14,852)	14,852	-
Total other financing sources (uses)	<u>(13,148)</u>	<u>13,148</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances-net assets	28,625	(15,022)	13,603	9,640	23,243
Fund balances—net assets at March 1, 2004	83,974	15,022	98,996	635,242	734,238
Fund balances—net assets at February 28, 2005	<u>\$ 112,599</u>	<u>\$ -</u>	<u>\$ 112,599</u>	<u>\$ 644,882</u>	<u>\$ 757,481</u>

The accompanying notes are an integral part of this statement.

Shelby Area District Library
NOTES TO FINANCIAL STATEMENTS
February 28, 2005

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Library have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Effective March 1, 2004, the Library adopted GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 37 and No. 38. These statements primarily establish standards for external financial reporting for state and local governments. Certain significant changes in these statements include the following:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the Library's overall financial position and results of operations.
- The Library's activities are presented on both the modified accrual basis of accounting (as in the past) as well as the full accrual basis of accounting.
- Expansion of footnote disclosures.
- These and other changes are reflected in the accompanying financial statements, including notes to financial statements.

The beginning net assets restated for the effects of implementation of GASB Statement No. 34 are as follows:

Fund balance at March 1, 2004—governmental funds	\$ 98,996
Net capital assets	<u>635,242</u>
Restated net assets at March 1, 2004	<u>\$ 734,238</u>

1. Reporting Entity

Shelby Area District Library (Library) was established pursuant to the Library Act of the State of Michigan. The Library is governed by a six member Library Board. The Village of Shelby appoints three members and the Shelby Township Board appoints three. The Library is administered by a Library Director appointed by the Board. The Library is primarily funded through Township tax levies, fines, fees, state aid and local penal fines from the County.

Generally accepted accounting principles require that if the Library has certain oversight responsibilities over other organizations, those organizations should be included in the Library's financial statements. Since no organizations met this criteria, none are included in the financial statements.

Shelby Area District Library
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
February 28, 2005

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

2. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the Library. Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

3. Measurement Focus and Basis of Accounting

Accrual Method

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. With this measurement focus, operating statements present increases and decreases in net current assets, and unreserved fund balance is a measure of available spendable resources. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so they have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Library.

The Library reports the following major governmental funds:

The General Fund is the Library's primary operating fund. It accounts for all financial resources of the Library, except those required to be accounted for in another fund.

The Capital Projects Fund is used to account for the Library's construction of a Library addition.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Shelby Area District Library
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
February 28, 2005

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

4. Assets, Liabilities and Fund Equity or Net Assets

Deposits and Investments

The Library's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

The Library has adopted an investment policy in compliance with State of Michigan statutes. Those statutes authorize the Library to invest in obligations of the United States, certificates of deposit, prime commercial paper, securities guaranteed by United States agencies or instrumentalities, United States government or federal agency obligation repurchase agreements, bankers acceptances, state-approved investment pools and certain mutual funds.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances". The due to/from at the end of the year were a result of the timing of property tax receipt transfers.

Advances between funds, as reported in the fund financial statements are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Capital Assets

Capital assets, which include plant and equipment are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year with exception of library books, periodicals, etc. which are all recorded as capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Property, plant and equipment is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	50
Equipment	5
Library books, periodicals, etc.	5-10
Furniture and fixtures	10

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures.

Shelby Area District Library
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
February 28, 2005

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Annual budgets, as required by state statutes, are adopted on a basis consistent with generally accepted accounting principles. All annual appropriations lapse at fiscal year end.

The Library follows these procedures in establishing the budgetary information provided in the financial statements:

- a. Prior to the first day of February, the Library Director submits to the Library Board a proposed operating budget for the year commencing the following March 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. Not later than the first Tuesday in February, the budget is legally enacted through passage of a resolution.
- d. Supplemental appropriations, when required to provide for additional expenditures, are matched by additional anticipated revenues or an appropriation of available fund balance and must be approved by the Library Board. All appropriations lapse at year end.

The appropriated budget is prepared by fund and individual revenue and expenditure line item. The legal level of budgetary control is the individual line item. The Library Board made several supplemental budgetary appropriations throughout the year.

NOTE C—DEPOSITS AND INVESTMENTS

1. Deposits

The Library's deposits are categorized to give an indication of the level of risk assumed by the entity at year end. Category 1 includes deposits insured or collateralized with securities held by the entity or its agent in the entity's name. Category 2 includes deposits collateralized with securities held by the pledging financial institutions' trust department or agent in the entity's name. Category 3 includes deposits which are uncollateralized.

As of February 28, 2005, the Library's carrying amount of deposits was \$71,478 and the bank balance was \$71,378. Of the bank balance, \$71,378 was covered by federal depository insurance.

Shelby Area District Library
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
February 28, 2005

NOTE D—CAPITAL ASSETS

	Balance March 1, <u>2004</u>	<u>Additions</u>	<u>Deductions</u>	Balance February 28, <u>2005</u>
Capital assets, being depreciated:				
Library books, periodicals, etc.	\$ 559,992	\$ 19,683	\$ 7,375	\$ 572,300
Building and improvements	672,314	31,762	-	704,076
Furniture, fixtures and equipment	<u>78,660</u>	<u>4,470</u>	<u>-</u>	<u>83,130</u>
Total capital assets, being depreciated	1,310,966	55,915	7,375	1,359,506
Less accumulated depreciation for:				
Library books, periodicals, etc.	421,296	24,741	7,375	438,662
Building and improvements	237,350	10,450	-	247,800
Furniture, fixtures and equipment	<u>17,078</u>	<u>11,084</u>	<u>-</u>	<u>28,162</u>
Total accumulated depreciation	<u>675,724</u>	<u>46,275</u>	<u>7,375</u>	<u>714,624</u>
Capital assets, net	\$ <u>635,242</u>	\$ <u>9,640</u>	\$ <u>-</u>	\$ <u>644,882</u>

Depreciation expense was unallocated for the year ended February 28, 2005.

NOTE E—DEFERRED COMPENSATION PLAN

The Library offers all of its full-time employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan permits the full-time employees to defer a portion of their salary until future years. The Library contributed approximately \$3,525 for the year ended February 28, 2005, which represents 3.5 percent of covered wages. The deferred compensation is not available until termination, retirement, death, or unforeseeable emergency.

The Plan has created a trust for the exclusive benefit of the Plan's participant and beneficiaries under rules provided in Internal Revenue Code Section 401(f).

NOTE F—OTHER INFORMATION

Risk Management

The Library is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Library carries commercial insurance. Liabilities in excess of insurance are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. There have been no losses in excess of insurance in the prior three years.

Shelby Area District Library
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
February 28, 2005

**NOTE G—RECONCILIATION OF FUND FINANCIAL STATEMENTS TO GOVERNMENT-WIDE
FINANCIAL STATEMENTS**

Total fund balance – governmental funds \$ 112,599

Amounts reported for government activities in the
Statement of Net Assets is different because:

Capital assets used in governmental activities are
not current financial resources and are not reported
in this governmental fund.

Cost of capital assets	\$ 1,359,506	
Accumulated depreciation	<u>(714,624)</u>	644,882
Net assets of governmental activities in the Statement of Net Assets		\$ <u>757,481</u>

Net change in fund balances – total governmental funds \$ 13,603

Amounts reported for government activities in the
Statement of Activities are different because:

Governmental funds report outlays for capital assets
as expenditures in the Statement of Activities;
these costs are depreciated and amortized over
their estimated useful lives.

Depreciation expense	(46,275)	
Capital outlay	<u>55,915</u>	
Change in net assets in governmental activities		\$ <u>23,243</u>

REQUIRED SUPPLEMENTAL INFORMATION

Shelby Area District Library
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE—BUDGET AND ACTUAL—GENERAL FUND
Year ended February 28, 2005

	Modified accrual			Variance with final budget - positive (negative)
	Original budget	Final budget	Actual	
Revenues				
Intergovernmental revenue				
State	\$ 10,700	\$ 11,100	\$ 11,080	\$ (20)
Local	207,000	217,300	229,003	11,703
Grants	-	6,500	6,600	100
Fines and forfeits	2,000	2,000	1,987	(13)
Investment income	800	800	364	(436)
Contributions	9,500	19,500	19,558	58
Other	5,300	6,200	6,702	502
	<u>235,300</u>	<u>263,400</u>	<u>275,294</u>	<u>11,894</u>
Expenditures				
Current				
Salaries and wages	135,500	133,500	134,560	(1,060)
Fringe benefits	15,000	15,000	13,844	1,156
Operating supplies	3,700	3,700	2,148	1,552
Office supplies	1,900	4,500	4,385	115
Insurance and bonds	6,000	6,000	5,597	403
Repairs and maintenance	3,000	6,000	4,925	1,075
Utilities	8,500	8,500	7,778	722
Professional services	5,500	5,500	4,900	600
Contracted services	3,000	5,000	4,234	766
Telephone	2,300	4,300	3,607	693
Postage	3,000	3,000	2,625	375
Printing	1,100	1,100	570	530
Other	16,400	16,400	13,067	3,333
Capital outlay	<u>30,400</u>	<u>36,900</u>	<u>31,281</u>	<u>5,619</u>
	<u>235,300</u>	<u>249,400</u>	<u>233,521</u>	<u>15,879</u>
Excess of revenues over (under) expenditures	-	14,000	41,773	27,773
Other financing sources (uses)				
Transfers in	-	-	852	852
Transfers out	<u>-</u>	<u>(14,000)</u>	<u>(14,000)</u>	<u>-</u>
Total other financing sources (uses)	-	(14,000)	(13,148)	852
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	28,625	<u>\$ 28,625</u>
Fund balance at March 1, 2004			<u>83,974</u>	
Fund balance at February 28, 2005			<u>\$ 112,599</u>	

Shelby Area District Library
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE—BUDGET AND ACTUAL—CAPITAL PROJECT FUND
Year ended February 28, 2005

	Modified accrual			Variance with final budget - positive (negative)
	Original budget	Final budget	Actual	
Revenues				
Investment income	\$ 100	\$ 100	\$ 22	\$ (78)
Contributions	5,000	7,600	6,597	(1,003)
Other	-	100	39	(61)
	<u>5,100</u>	<u>7,800</u>	<u>6,658</u>	<u>(1,142)</u>
Expenditures				
Current				
Printing	300	300	211	89
Other	100	100	74	26
Capital outlay	9,400	35,500	34,543	957
	<u>9,800</u>	<u>35,900</u>	<u>34,828</u>	<u>1,072</u>
Excess of revenues over (under) expenditures	(4,700)	(28,100)	(28,170)	(70)
Other financing sources (uses)				
Transfers in	-	14,000	14,000	-
Transfers out	-	(900)	(852)	48
Total other financing sources (uses)	<u>-</u>	<u>13,100</u>	<u>13,148</u>	<u>48</u>
Net change in fund balances	<u>\$ (4,700)</u>	<u>\$ (15,000)</u>	(15,022)	<u>\$ (22)</u>
Fund balance at March 1, 2004			<u>15,022</u>	
Fund balance at February 28, 2005			<u>\$ -</u>	